

**CITY OF MOUNT VERNON, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS**

*June 30, 2004*

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## CITY OF MOUNT VERNON

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rick Elliott	Mayor	December 31, 2005
Paul Tuerler	Mayor Pro tem	December 31, 2007
Diane Hoffmann	Council Member	December 31, 2007
Jon Barnes	Council Member	December 31, 2005
Jim Moore	Council Member	December 31, 2005
Marty Christensen	Council Member	December 31, 2007
Michael R. Beimer	City Administrator/Clerk	December 31, 2005
Scott Peterson	Attorney	December 31, 2004
Sara L. Smith	Attorney	December 31, 2004

## **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council  
Mount Vernon, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mount Vernon, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mount Vernon as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 12, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 14 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the City of Mount Vernon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements, which were prepared on the basis of accounting described in Note 1. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cedar Rapids, Iowa  
August 31, 2004

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Mount Vernon, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004.

We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### **2004 FINANCIAL HIGHLIGHTS**

Revenues of the City's governmental activities decreased 2.4%, or approximately \$57,000, from fiscal 2003 to fiscal 2004. Tax increment financing collections increased approximately \$182,000 and licenses and permits proceeds doubled from \$22,000 to \$44,000 due in part to adjusting the fees schedule in March, but also due largely to increased residential development. The decline in local option sales tax collections is attributable to no collections in calendar year 2004; the local option sales tax was subsequently passed to allow for the extra 1 cent collection in calendar years 2005 and 2006. Management is forecasting approximately \$325,000 for each of these years, based on past economic indicators and the economy remaining viable.

On October 10, 2003, the State of Iowa announced budget cuts to the FY2004 budget that would take place immediately. After the Revenue Estimating Conference announced a decrease of \$142.2 million in estimated state general fund revenues for fiscal year 2004, Governor Tom Vilsack immediately announced a 2.5 percent cut in state spending. These cuts resulted in revenue reductions to the City of Mount Vernon in the following areas: property tax credits, machinery and equipment reimbursement, bank franchise tax and state Library of Iowa Open Access. This created a shortfall of \$8,661 for General Fund revenues for FY2004.

Additionally, after all cities in Iowa had certified their budgets for FY2004, the state announced across the board budget cuts that severely affected the cities' ability to deliver essential services. Certain revenue sources were eliminated entirely, such as monies and credits and utility replacement excise tax. The effect on Mount Vernon's General Fund for FY2004 (and all subsequent year General Fund revenues) was a budget shortfall of \$43,041 for consolidated property and approximately \$8,000 for utility replacement excise tax. The total shortfall for FY2004, with all of the cuts and reductions, was and will be in the future, approximately \$59,000 per year.

?? Disbursements for governmental activities decreased 7.23%, or approximately \$154,000, in fiscal 2004 from fiscal 2003. Public works, debt service, culture and recreation and community and economic development projects disbursements increased approximately \$27,000, \$9,000, \$26,000 and \$3,000, respectively. Capital projects, general government and public safety decreased \$156,000, \$35,000 and \$29,000, respectively.

?? The City's total cash basis net assets increased 12.41%, or \$333,619, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased by \$254,492 and the assets of the business-type activities increased by \$79,127.

## USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Governmental funds.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

### **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

#### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- ?? Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ?? Business-Type Activities include the waterworks, the sanitary sewer system, solid waste and the storm sewer system. These activities are financed primarily by user charges.

#### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water (including storm water), solid waste and sewer funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$1,687,665 to \$1,942,157. The analysis that follows focuses on the changes in cash balances for governmental activities. The following table illustrates these amounts expressed in thousands of dollars.



**Changes in Cash Basis Net Assets  
of Governmental Activities**

	<b>Year Ended June 30,</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 222	\$ 208
Operating grants, contributions and restricted interest	375	360
General receipts:		
Property tax	1,550	1,373
Local option sales tax	124	320
Grants and contributions not restricted to specific purposes	42	102
Unrestricted investment earnings	13	15
Other general receipts	14	20
Transfers, net	<u>-</u>	<u>175</u>
Total receipts and transfers	<u>2,340</u>	<u>2,573</u>
Disbursements and transfers:		
Public safety	477	505
Public works	297	270
Culture and recreation	265	239
Community and economic development	7	4
General government	204	239
Debt service	511	502
Capital projects	217	373
Transfers, net	<u>108</u>	<u>-</u>
Total disbursements and transfers	<u>2,086</u>	<u>2,132</u>
Increase in cash basis net assets	254	441
Cash basis net assets, beginning of year	<u>1,688</u>	<u>1,247</u>
Cash basis net assets, end of year	<u><u>\$ 1,942</u></u>	<u><u>\$ 1,688</u></u>

The City's total receipts for governmental activities decreased by 2.4%, or \$57,624. The total cost of all programs and services decreased by \$154,115, or 7.2%, with no new programs added this year.

The City property tax rates for 2004 remained the same as last year. With the exception of two voted increases, the library tax levy and the capital equipment levy for the fire department, the base tax rate has remained unchanged for the last 12 years. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$70,428 next year.

The cost of all governmental activities this year was \$1,978,760, compared to \$2,132,875 last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$1,381,510 because some of the cost was paid by those who directly benefited from the programs (charges for service \$221,784) or by other governments and organizations that subsidized certain programs with grants and contributions (\$375,466). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2004 from \$568,554 to \$597,250. The City paid for the remaining "public benefit" portion of governmental activities with \$1,381,510 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

**Changes in Cash Basis Net Assets of Business-Type Activities**  
(Expressed in Thousands)

	<b>Year Ended June 30,</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	\$ 388	\$ 384
Sewer	339	331
Solid waste	283	260
Operating grants, contributions and restricted interest	-	6
General receipts:		
Unrestricted investment earnings	21	28
Other general receipts	1	2
Transfers, net	<u>108</u>	<u>-</u>
Total receipts and transfers	<u>1,140</u>	<u>1,011</u>
Disbursements and transfers:		
Water	407	374
Sewer	364	344
Solid waste	290	292
Storm sewer	-	-
Transfers, net	<u>-</u>	<u>175</u>
Total disbursements and transfers	<u>1,061</u>	<u>1,185</u>
Increase (decrease) in cash basis net assets	79	(174)
Cash basis net assets, beginning of year	<u>999</u>	<u>1,173</u>
Cash basis net assets, end of year	<u><u>\$ 1,078</u></u>	<u><u>\$ 999</u></u>

Total business-type activities receipts and net transfers for the fiscal year were \$1,139,965 compared to \$1,010,475 last year. The cash balance increased \$79,127 from the prior year. Total disbursements and transfers for the fiscal year decreased by 10.5% to a total of \$1,060,838.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As Mount Vernon completed the year, its governmental funds reported a combined fund balance of \$3,020,210, an increase of \$333,619 above last year's total of \$2,686,591. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ?? The General Fund cash balance increased \$95,388 from the prior year to \$254,379. This increase is consistent with the General Fund increase in FY2003 of \$50,346.
- ?? The Local Option Sales Tax Fund cash balance increased \$115,973 during the fiscal year. There were no disbursements from this fund in the prior year and only \$8,000 for the current year, so the cash balance has increased significantly. The City intends to use these receipts in the future for the construction of either a new fire station or a community center.
- ?? The Road Use Tax Fund cash balance decreased by \$12,773 to \$106,032 during the fiscal year. The City will be conducting a special census in the fall of 2004 to capture new residents that were not part of the 2000 census. It is anticipated that this special census will result in an increase of approximately \$250,000 of road use tax funds between now and the next census, due to the road use tax distribution formula. The City intends to use this money to upgrade the condition of all City roads. Since its creation in 1942 until FY2001, RUTF revenues steadily increased. RUTF revenues decreased for the first time in FY2001. A slumping economy and a decline in gasoline sales due to less travel by the general public were the primary factors. An increase in the use of ethanol-blended gasoline also contributed to the decrease in revenues. To encourage its use, the fuel tax on ethanol gasoline is one-cent less than non-ethanol unleaded gasoline. This results in less revenue for the Road Use Tax Fund. Projections of rising fuel costs will undoubtedly have an adverse effect on RUTF revenues collected in FY2005.
- ?? The Urban Renewal Tax Increment Fund was established in 1992 to account for major urban renewal projects within the City's business district. At the end of the fiscal year, the cash balance was \$710,261, an increase of \$47,133 from the previous year. An internal loan from the sewer reserve fund was established to fund identified urban renewal projects, as outlined under the City's Urban Renewal Ordinance. These proceeds will be used for various construction and refurbishing projects within the urban renewal district. The principal and interest are repaid each year from the Urban Renewal Tax Increment Fund, and then a new loan is established by resolution to service the debt on the upcoming year's urban renewal projects.
- ?? The Debt Service Fund cash balance increased by \$4,165 to \$54,550 during the fiscal year. This increase was due to an increase in property tax collections.

## INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- ?? The Water Fund cash balance decreased by \$15,679 to \$469,741, due primarily to an increase in operational expenses and equipment maintenance and repairs over the prior year.
- ?? The Sewer Fund cash balance increased by \$101,632 to \$572,524, due primarily to an increase in sewer rentals and reductions in debt service payments over the prior year.
- ?? The Solid Waste Fund cash balance decreased from \$102,614 to \$95,788, due primarily to costing certain expenses to the utility and not increasing revenue fees to cover expenses in operating the utility.
- ?? The Storm Water Fund was newly established in June, 2004, and subsequently, there was no expense and very little revenue recorded in FY2004. The utility will be used to fund storm sewer improvements within the city.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once, in May 2004. The amendment was approved on May 17, 2004 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$59,520 for public safety, with an unbudgeted new police car accounting for approximately one-half of this amount. The other major amendment was unbudgeted funds spent for the culture and recreation program in the amount of \$25,000. The City had sufficient cash balances to absorb these additional costs.

## DEBT ADMINISTRATION

At June 30, 2004, the City had \$4,010,000 in bonds and other long-term debt, compared to \$4,500,000 last year, as show below.

	<b>Outstanding Debt at Year End (Expressed in Thousands)</b>	
	<b>Year Ended June 30,</b>	
	<b><u>2004</u></b>	<b><u>2003</u></b>
General obligation bonds	\$ 2,915	\$ 3,270
Revenue notes	<u>1,095</u>	<u>1,230</u>
Total	<u>\$ 4,010</u>	<u>\$ 4,500</u>

The City does not carry a general obligation bond rating assigned by national rating agencies due to the small size of the City and the debt that we traditionally bond for; additionally, it is considered that the cost associated with obtaining such a rating would not be in line with any potential resulting savings or points discounted. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,915,000 is significantly below its constitutional debt limit of \$6,906,407.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Mount Vernon's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's population growth has mirrored the population growth of Linn County during 1999-2004, averaging per year gains of approximately 1.5 percent, or approximately 9 percent during this time frame. This compares with the State's population growth rate of approximately 6.9 percent and the national rate of 3.9 percent during the same time frame.

Inflation in the state continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest in the state due in part to the slowing of the residential housing market due to rising interest rates as compared to rates in the 5.4% range to posting of new home rates in the 7% range. It is anticipated that Mount Vernon's demand for new housing will remain viable as long as interest rates do not move sharply up. Building permits issued for new housing construction are averaging approximately 20 per year. Mount Vernon relies heavily upon the residential tax base for funding programs within the City's General Fund. The City experienced rising increases in energy prices in 2003-2004. It is anticipated that energy costs will continue to rise in 2004-2005.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$3,681,160, an increase of 8.03% over the final 2004 budget. Property tax (benefiting from the increases in assessed valuations) and urban renewal tax increment financing collections are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out major urban renewal projects of the City. Budgeted disbursements are expected to rise by approximately \$273,477. Increased wage and cost-of-living adjustments, increases in the public safety fund, street construction and maintenance and urban renewal projects represent the largest increases. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$765,855 by the close of 2005.

## **PROPERTY TAX ROLL-BACK**

The Iowa Department of Revenue issued its Assessment Limitation Order on October, 2003 with county auditors being ordered to adjust 2003 actual property values by the following percentages:

<b><u>Property Classification</u></b>	<b><u>FY2005</u></b>	<b><u>FY2004</u></b>	<b><u>FY2003</u></b>	<b><u>FY2002</u></b>
Residential	48.4558%	51.3874%	51.6676%	56.2651%
Commercial	99.2570%	100%	97.7701%	100%
Agricultural	100%	100%	100%	100%
Industrial	100%	100%	100%	100%

The January 1, 2003 property tax valuation serves as the basis for calculating property taxes in FY2005. Since 1978, residential, commercial and agricultural classifications have been subject to the assessment limitation order, or roll back, that limits annual growth in property to 4% with a further restriction that growth in residential property cannot exceed that of agricultural property. The result is an annual rolling-back of residential values. A significant decline in agricultural land productivity has resulted in low values on agricultural land for tax purposes. This low value has resulted in a significant adjustment to residential property taxes. It appears that residential roll-back will decrease further for valuations January 1, 2004 payable 2005-2006. The roll-back is projected to be 47.96%. It was hoped that the roll-back would recover slightly, in an even-numbered year without revaluation of existing properties and equalization orders being absent. However, once again the link to agricultural valuation growth forced the roll-back down. Without the link between residential and agricultural growth, the residential roll-back would have actually increased. The City of Mount Vernon has realized substantial residential growth in the last decade, which has partially off-set the decline attributable to the roll-back factor.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michael R. Beimer, City Administrator, 213 First Street West, Mount Vernon, Iowa.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF MOUNT VERNON

## Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2004

		<u>Program Receipts</u>	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 477,261	\$ 47,833	\$ 13,905
Public works	297,335	-	319,159
Culture and recreation	265,166	92,423	41,837
Community and economic development	7,240	-	-
General government	203,634	81,528	565
Debt service	511,520	-	-
Capital projects	<u>216,604</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>1,978,760</u>	<u>221,784</u>	<u>375,466</u>
Business type activities:			
Water	406,749	388,523	-
Sewer	363,871	339,057	-
Solid waste	<u>290,218</u>	<u>282,568</u>	<u>-</u>
Total business type activities	<u>1,060,838</u>	<u>1,010,148</u>	<u>-</u>
Total	<u>\$ 3,039,598</u>	<u>\$ 1,231,932</u>	<u>\$ 375,466</u>
<b>General Receipts:</b>			
Property tax levied for:			
General purposes			
Tax increment financing			
Debt service			
Local option sales tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Miscellaneous			
Transfers			
Total general receipts and transfers			



**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets**

---

<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
\$ (415,523)	\$ -	\$ (415,523)
21,824	-	21,824
(130,906)	-	(130,906)
(7,240)	-	(7,240)
(121,541)	-	(121,541)
(511,520)	-	(511,520)
<u>(216,604)</u>	<u>-</u>	<u>(216,604)</u>
<u>(1,381,510)</u>	<u>-</u>	<u>(1,381,510)</u>
-	(18,226)	(18,226)
-	(24,814)	(24,814)
<u>-</u>	<u>(7,650)</u>	<u>(7,650)</u>
<u>-</u>	<u>(50,690)</u>	<u>(50,690)</u>
<u>(1,381,510)</u>	<u>(50,690)</u>	<u>(1,432,200)</u>
695,765	-	695,765
733,812	-	733,812
120,689	-	120,689
123,973	-	123,973
41,920	-	41,920
13,315	21,000	34,315
14,086	1,259	15,345
<u>(107,558)</u>	<u>107,558</u>	<u>-</u>
<u>1,636,002</u>	<u>129,817</u>	<u>1,765,819</u>

(continued)

**CITY OF MOUNT VERNON**

**Statement of Activities and Net Assets - Cash Basis**

**As of and for the year ended June 30, 2004**

	<u><b>Disbursements</b></u>	<u><b>Charges for Service</b></u>	<u><b>Program Receipts Operating Grants, Contributions, and Restricted Interest</b></u>
Change in cash basis net assets			
Cash basis net assets, beginning of year			
Cash basis net assets, end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Streets			
Maintenance and improvements			
Urban renewal purposes			
Debt service			
Cemetary perpetual care			
Other purposes			
Unrestricted			
<b>Total Cash Basis Net Assets</b>			

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets**

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<b><u>Governmental Activities</u></b>	<b><u>Business Type Activities</u></b>	<b><u>Total</u></b>
254,492	79,127	333,619
<u>1,687,665</u>	<u>998,926</u>	<u>2,686,591</u>
<u><u>\$ 1,942,157</u></u>	<u><u>\$ 1,078,053</u></u>	<u><u>\$ 3,020,210</u></u>

\$ 106,032	\$ -	\$ 106,032
-	319,743	319,743
702,261	-	702,261
54,550	194,352	248,902
70,955	-	70,955
549,956	-	549,956
<u>458,403</u>	<u>563,958</u>	<u>1,022,361</u>
<u><u>\$ 1,942,157</u></u>	<u><u>\$ 1,078,053</u></u>	<u><u>\$ 3,020,210</u></u>

These financial statements should be read only in connection with  
the accompanying notes to financial statements.

# CITY OF MOUNT VERNON

## Statement of Cash Receipts, Disbursements and Changes in Cash Balances Governmental Funds

As of and for the year ended June 30, 2004

		<u>Special Revenue</u>		
	<u>General</u>	<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>	<u>Local Option Sales Tax</u>
Receipts:				
Property tax	\$ 500,897	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	733,812	-
Other city tax	13,988	-	-	123,973
Licenses and permits	44,181	-	-	-
Use of money and property	15,812	-	3,825	-
Intergovernmental	29,472	317,159	-	-
Charges for service	103,887	-	-	-
Miscellaneous	<u>129,908</u>	<u>2,403</u>	<u>-</u>	<u>-</u>
Total receipts	<u>838,145</u>	<u>319,562</u>	<u>737,637</u>	<u>123,973</u>
Disbursements:				
Operating:				
Public safety	459,761	-	-	-
Public works	-	297,335	-	-
Culture and recreation	257,166	-	-	8,000
Community and economic development	7,240	-	-	-
General government	137,948	-	-	-
Debt service	-	-	-	-
Capital projects	<u>-</u>	<u>-</u>	<u>193,077</u>	<u>-</u>
Total disbursements	<u>862,115</u>	<u>297,335</u>	<u>193,077</u>	<u>8,000</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(23,970)</u>	<u>22,227</u>	<u>544,560</u>	<u>115,973</u>
Other financing sources (uses):				
Operating transfers in	119,358	-	596,920	-
Operating transfers out	<u>-</u>	<u>(35,000)</u>	<u>(1,094,347)</u>	<u>-</u>
Total other financing sources (uses)	<u>119,358</u>	<u>(35,000)</u>	<u>(497,427)</u>	<u>-</u>

<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 120,689	\$ 194,868	\$ 816,454
-	-	733,812
717	-	138,678
-	-	44,181
3,754	1,465	24,856
-	-	346,631
-	-	103,887
-	-	132,311
<u>125,160</u>	<u>196,333</u>	<u>2,340,810</u>
-	17,500	477,261
-	-	297,335
-	-	265,166
-	-	7,240
-	65,686	203,634
511,520	-	511,520
-	23,527	216,604
<u>511,520</u>	<u>106,713</u>	<u>1,978,760</u>
<u>(386,360)</u>	<u>89,620</u>	<u>362,050</u>
390,525	-	1,106,803
-	(85,014)	(1,214,361)
<u>390,525</u>	<u>(85,014)</u>	<u>(107,558)</u>

(continued)

# CITY OF MOUNT VERNON

## Statement of Cash Receipts, Disbursements and Changes in Cash Balances Governmental Funds

As of and for the year ended June 30, 2004

		<u>Special Revenue</u>		
	<u>General</u>	<u>Road Use Tax</u>	<u>Urban Renewal Tax Increment</u>	<u>Local Option Sales Tax</u>
Net change in cash balances	95,388	(12,773)	47,133	115,973
Cash balances, beginning of year	<u>158,991</u>	<u>118,805</u>	<u>663,128</u>	<u>414,716</u>
Cash balances, end of year	<u>\$ 254,379</u>	<u>\$ 106,032</u>	<u>\$ 710,261</u>	<u>\$ 530,689</u>
<b>Cash Basis Fund Balances</b>				
Reserved:				
Debt service	\$ -	\$ -	\$ -	\$ -
Unreserved:				
General fund	254,379	-	-	-
Special revenue funds	-	106,032	710,261	530,689
Capital projects fund	-	-	-	-
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 254,379</u>	<u>\$ 106,032</u>	<u>\$ 710,261</u>	<u>\$ 530,689</u>

<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
4,165	4,606	254,492
<u>50,385</u>	<u>281,640</u>	<u>1,687,665</u>
<u>\$ 54,550</u>	<u>\$ 286,246</u>	<u>\$1,942,157</u>
\$ 54,550	\$ -	\$ 54,550
-	-	254,379
-	11,267	1,358,249
-	204,024	204,024
<u>-</u>	<u>70,955</u>	<u>70,955</u>
<u>\$ 54,550</u>	<u>\$ 286,246</u>	<u>\$1,942,157</u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

## CITY OF MOUNT VERNON

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Operating receipts:				
Use of money and property	\$ 14,815	\$ 5,377	\$ 808	\$ 21,000
Charges for service	384,536	339,057	282,568	1,006,161
Miscellaneous	<u>4,730</u>	<u>500</u>	<u>16</u>	<u>5,246</u>
Total operating receipts	404,081	344,934	283,392	1,032,407
Operating disbursements:				
Business type activities	<u>290,159</u>	<u>283,346</u>	<u>290,218</u>	<u>863,723</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	113,922	61,588	(6,826)	168,684
Non-operating disbursements:				
Debt service	<u>(116,590)</u>	<u>(80,525)</u>	<u>-</u>	<u>(197,115)</u>
Excess of disbursements over receipts	<u>(2,668)</u>	<u>(18,937)</u>	<u>(6,826)</u>	<u>(28,431)</u>
Other financing sources (uses):				
Operating transfers in	-	738,822	-	738,822
Operating transfers out	<u>(13,011)</u>	<u>(618,253)</u>	<u>-</u>	<u>(631,264)</u>
Total other financing sources (uses)	<u>(13,011)</u>	<u>120,569</u>	<u>-</u>	<u>107,558</u>
Net change in cash balances	(15,679)	101,632	(6,826)	79,127
Cash balances, beginning of year	<u>485,420</u>	<u>410,892</u>	<u>102,614</u>	<u>998,926</u>
Cash balances, end of year	<u><u>\$ 469,741</u></u>	<u><u>\$ 512,524</u></u>	<u><u>\$ 95,788</u></u>	<u><u>\$1,078,053</u></u>
<b>Cash Basis Fund Balances</b>				
Reserved for maintenance and improvements	\$ 209,743	\$ 110,000	\$ -	\$ 319,743
Reserved for debt service	107,653	86,699	-	194,352
Unreserved	<u>152,345</u>	<u>315,825</u>	<u>95,788</u>	<u>563,958</u>
Total cash basis fund balances	<u><u>\$ 469,741</u></u>	<u><u>\$ 512,524</u></u>	<u><u>\$ 95,788</u></u>	<u><u>\$1,078,053</u></u>

These financial statements should be read only in connection with the accompanying notes to financial statements.



# **CITY OF MOUNT VERNON**

## **Notes to Financial Statements**

**June 30, 2004**

### **(1) Summary of Significant Accounting Policies**

The City of Mount Vernon, a political subdivision of the State of Iowa located in Linn County, operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer and solid waste utilities for its citizens.

#### **A. Reporting Entity**

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

The following component unit is an entity that is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City. However, the financial transactions of this component unit have not been displayed because they are not material.

The Mt. Vernon Fire Department was established by adopting its own constitution and by-laws. The Fire Department collects donations which are used to purchase items which are not included in the City's budget.

The police and fire reserve organizations have governing authorities independent from the City and are not considered to be component units of the City. As such, their activity is not included in the financial statements of the City.

#### **B. Basis of Presentation**

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

# CITY OF MOUNT VERNON

## Notes to Financial Statements

June 30, 2004

### (1) Summary of Significant Accounting Policies (continued)

#### B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from the other funds.

#### Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the receipt and expenditure of local option sales taxes.

## **CITY OF MOUNT VERNON**

### **Notes to Financial Statements**

**June 30, 2004**

#### **(1) Summary of Significant Accounting Policies (continued)**

##### **B. Basis of Presentation (continued)**

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund accounts for the costs associated with solid waste removal which is funded through user fees.

##### **C. Measurement Focus and Basis of Accounting**

The City of Mount Vernon maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

##### **D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety and culture and recreation functions.

#### **(2) Deposits and Investments**

Deposits (cash and certificates of deposit) are carried at cost which approximates market value. The carrying amount of deposits at June 30, 2004 is \$3,020,210 (including certificates of deposit totaling \$454,984) and is shown as the total end of year balance in the financial statements. The City's deposits at June 30, 2004, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

# CITY OF MOUNT VERNON

## Notes to Financial Statements

June 30, 2004

### (2) Deposits and Investments (continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

### (3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds & Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 360,000	\$ 138,258	\$ 135,000	\$ 54,930	\$ 495,000	\$ 193,188
2006	390,000	120,552	145,000	48,190	535,000	168,742
2007	275,000	101,323	155,000	40,825	430,000	142,148
2008	280,000	87,642	45,000	32,860	325,000	120,502
2009	145,000	73,593	50,000	30,767	195,000	104,360
2010	155,000	67,067	50,000	28,443	205,000	95,510
2011	160,000	60,093	55,000	26,117	215,000	86,210
2012	170,000	52,892	55,000	23,450	225,000	76,342
2013	180,000	45,243	60,000	20,783	240,000	66,026
2014	185,000	37,142	60,000	17,752	245,000	54,894
2015	195,000	28,818	65,000	14,723	260,000	43,541
2016	205,000	19,847	70,000	11,440	275,000	31,287
2017	215,000	10,213	75,000	7,800	290,000	18,013
2018	-	-	75,000	3,900	75,000	3,900
<b>Total</b>	<u>\$ 2,915,000</u>	<u>\$ 842,683</u>	<u>\$ 1,095,000</u>	<u>\$ 361,980</u>	<u>\$ 4,010,000</u>	<u>\$ 1,204,663</u>

## **CITY OF MOUNT VERNON**

### **Notes to Financial Statements**

**June 30, 2004**

#### **(3) Bonds and Notes Payable (continued)**

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Certain notes may be called for redemption by the City.
- c) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts for the purpose of making the note principal and interest payments when due. The minimum amount to be deposited in the sinking fund in any month is one-sixth of the interest installment coming due on the next interest payment date plus one-twelfth of the principal installment coming due on the next principal date.
- d) Funds remaining in the water and sewer revenue accounts after the payment of all current expenses and required transfers into the sinking funds will be disbursed as follows: (1) a separate water and sewer revenue debt service reserve fund will be established in amounts equal to at least the lesser of the maximum amount of principal and interest coming due in any succeeding fiscal year or 10% of the stated principal amount of the sale of the notes to the public; (2) a separate water and sewer revenue improvement fund will be established and a minimum of \$400 will be deposited into these funds each month until a balance of \$50,000 is reached.

The City is insured by the Iowa Communities Assurance Pool and policies existing at June 30, 2004 expire on June 30, 2005.

The City also has fidelity bond insurance coverage through EMC Insurance Companies in the amount of \$100,000. The current policy expires on July 1, 2004, but has been renewed through July 1, 2005.

The City has not maintained a separate water or sewer revenue account from which transfers were to be made into operations and maintenance funds as required by the water and sewer revenue note resolutions. Instead, the revenue fund and operations and maintenance fund were treated as one fund.

#### **(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement Systems (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

# **CITY OF MOUNT VERNON**

## **Notes to Financial Statements**

**June 30, 2004**

### **(4) Pension and Retirement Benefits (continued)**

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$46,746, \$48,943, and \$46,250, respectively, equal to the required contributions for each year.

### **(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<b><u>Type of benefit</u></b>	<b><u>Amount</u></b>
Vacation	\$ 48,757
Sick leave	<u>157,104</u>
Total	<u><u>\$205,861</u></u>

This liability has been computed based on rates of pay as of June 30, 2004.

Sick leave is payable when used or upon termination, retirement or death. If at retirement or death an employee has at least 20 years of service, all of the accumulated sick leave will be paid, with the pay rate being the same as the employee's regular rate. Upon termination (voluntary/involuntary) the employee shall receive one half of all accumulated sick leave pay. Based on this computation, the minimum accumulated sick leave approximates \$78,552 at June 30, 2004.

The City is also potentially liable for severance pay for one of its employees. If the employee's contract is not renewed by the City Council, the City agrees to pay an amount equal to four months of the employee's salary. Calculated based on rates of pay as of June 30, 2004, this amount approximates \$22,707. The City Council has agreed to increase the severance pay amount from four to eight months effective July 1, 2004.

### **(6) Meter Deposits**

At June 30, 2004, the City was holding meter deposits from individuals in the amount of \$7,423.

# CITY OF MOUNT VERNON

## Notes to Financial Statements

June 30, 2004

### (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	\$ 355,525
	Road Use Tax	35,000
		<u>390,525</u>
General Fund	Enterprise:	
	Water	13,011
	Sewer	21,333
	Special Revenue:	
	Employee Benefits	85,014
		<u>119,358</u>
Enterprise:	Special Revenue:	
Sewer	Urban Renewal Tax Increment	<u>738,822</u>
Special Revenue:		
Urban Renewal	Enterprise:	
Tax Increment	Sewer	<u>596,920</u>
Total		<u>\$1,845,625</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The transfers between the Enterprise, Sewer fund and the Special Revenue, Urban Renewal Tax Increment fund are for the repayment of an inter-fund loan and the subsequent new loan made. See Note 10 for further discussion.

### (8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$250 during the year ended June 30, 2004.

### (9) Risk Management

The City of Mount Vernon is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **CITY OF MOUNT VERNON**

### **Notes to Financial Statements**

**June 30, 2004**

#### **(10) Inter-fund Loans**

During the current fiscal year, a loan was made to the Special Revenue, Urban Renewal Tax Increment fund from the Enterprise, Sewer fund in order to fund capital projects. The loan will be repaid, along with interest at 6.5%, as property taxes (tax incremental financing) are received. At June 30, 2004 the loan amount outstanding totals \$596,920.

During the current year, \$738,822 was transferred from the Special Revenue, Urban Renewal Tax Increment fund to the Enterprise, Sewer fund in payment of a loan outstanding at June 30, 2003. The payment included interest of \$45,095.

#### **(11) Commitments**

The City has entered into various purchase commitments totaling \$98,000 for equipment and a skate park. Through June 30, 2004, no payments have been made on these commitments.

#### **(12) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences* were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

This information is an integral part of the accompanying financial statements.



## **REQUIRED SUPPLEMENTARY INFORMATION**

# CITY OF MOUNT VERNON

## Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances- Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

### Required Supplementary Information

Year ended June 30, 2004

	<b>Governmental Funds <u>Actual</u></b>	<b>Proprietary Funds <u>Actual</u></b>	<b>Less Funds not Required to be Budgeted</b>
Receipts:			
Property tax	\$ 816,454	\$ -	\$ -
Tax increment financing collections	733,812	-	-
Other city tax	138,678	-	-
Licenses and permits	44,181	-	-
Use of money and property	24,856	21,000	-
Intergovernmental	346,631	-	-
Charges for service	103,887	1,006,161	-
Miscellaneous	<u>132,311</u>	<u>5,246</u>	<u>-</u>
Total receipts	<u>2,340,810</u>	<u>1,032,407</u>	<u>-</u>
Disbursements:			
Public safety	477,261	-	-
Public works	297,335	-	-
Culture and recreation	265,166	-	-
Community and economic development	7,240	-	-
General government	203,634	-	-
Debt service	511,520	-	-
Capital projects	216,604	-	-
Business type activities	<u>-</u>	<u>1,060,838</u>	<u>-</u>
Total disbursements	<u>1,978,760</u>	<u>1,060,838</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	362,050	(28,431)	-
Other financing sources, net	<u>(107,558)</u>	<u>107,558</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	254,492	79,127	-
Balances, beginning of year	<u>1,687,665</u>	<u>998,926</u>	<u>-</u>
Balances, end of year	<u><u>\$ 1,942,157</u></u>	<u><u>\$ 1,078,053</u></u>	<u><u>\$ -</u></u>

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 816,454	\$ 790,842	\$ 790,842	\$ 25,612
733,812	738,820	738,820	(5,008)
138,678	46,181	183,681	(45,003)
44,181	30,800	30,800	13,381
45,856	71,500	71,500	(25,644)
346,631	353,266	353,266	(6,635)
1,110,048	1,076,165	1,091,165	18,883
<u>137,557</u>	<u>79,000</u>	<u>114,000</u>	<u>23,557</u>
<u>3,373,217</u>	<u>3,186,574</u>	<u>3,374,074</u>	<u>(857)</u>
477,261	416,378	475,628	(1,633)
297,335	300,634	300,634	3,299
265,166	207,449	232,449	(32,717)
7,240	5,450	8,450	1,210
203,634	261,645	261,645	58,011
511,520	513,020	513,020	1,500
216,604	859,700	859,700	643,096
<u>1,060,838</u>	<u>1,288,245</u>	<u>1,288,245</u>	<u>227,407</u>
<u>3,039,598</u>	<u>3,852,521</u>	<u>3,939,771</u>	<u>900,173</u>
333,619	(665,947)	(565,697)	899,316
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
333,619	(665,947)	(565,697)	899,316
<u>2,686,591</u>	<u>2,106,093</u>	<u>2,106,093</u>	<u>580,498</u>
<u>\$ 3,020,210</u>	<u>\$ 1,440,146</u>	<u>\$ 1,540,396</u>	<u>\$ 1,479,814</u>

## **CITY OF MOUNT VERNON**

### **Notes to Required Supplementary Information - Budgetary Reporting**

**June 30, 2004**

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year, a budget amendment increased budgeted disbursements by \$87,250. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety and culture and recreation functions.

## **OTHER SUPPLEMENTARY INFORMATION**

# CITY OF MOUNT VERNON

## Statement of Cash Receipts, Disbursements and Changes in Cash Balances Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	<u>Insurance Levy</u>	<u>Employee Benefits</u>	<u>Fire Department Equipment</u>	<u>Highway 1 Corridor</u>	<u>Waste Water Treatment Plant</u>
Receipts:					
Property tax	\$ 69,613	\$ 84,083	\$ 41,172	\$ -	\$ -
Use of money and property	-	-	-	-	1,465
Total receipts	<u>69,613</u>	<u>84,083</u>	<u>41,172</u>	<u>-</u>	<u>1,465</u>
Disbursements:					
Operating:					
Public safety	-	-	17,500	-	-
General government	65,686	-	-	-	-
Capital projects	-	-	-	59	23,468
Total disbursements	<u>65,686</u>	<u>-</u>	<u>17,500</u>	<u>59</u>	<u>23,468</u>
Excess (deficiency) of receipts over (under) disbursements	3,927	84,083	23,672	(59)	(22,003)
Other financing uses:					
Operating transfers out	-	(85,014)	-	-	-
Net change in cash balances	3,927	(931)	23,672	(59)	(22,003)
Cash balances, beginning of year	<u>7,340</u>	<u>931</u>	<u>22,840</u>	<u>4,807</u>	<u>174,767</u>
Cash balances, end of year	<u>\$ 11,267</u>	<u>\$ -</u>	<u>\$ 46,512</u>	<u>\$ 4,748</u>	<u>\$ 152,764</u>
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 11,267	\$ -	\$ -	\$ -	\$ -
Capital project funds	-	-	46,512	4,748	152,764
Permanent fund	-	-	-	-	-
Total cash basis fund balance	<u>\$ 11,267</u>	<u>\$ -</u>	<u>\$ 46,512</u>	<u>\$ 4,748</u>	<u>\$ 152,764</u>

<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
\$ -	\$ 194,868
-	1,465
-	196,333
-	17,500
-	65,686
-	23,527
-	106,713
-	89,620
-	(85,014)
-	4,606
70,955	281,640
<u>\$ 70,955</u>	<u>\$ 286,246</u>
\$ -	\$ 11,267
-	204,024
70,955	70,955
<u>\$ 70,955</u>	<u>\$ 286,246</u>

**CITY OF MOUNT VERNON**

**Schedule of Indebtedness**

**Year Ended June 30, 2004**

<b><u>Obligation</u></b>	<b><u>Date of Issue</u></b>	<b><u>Interest Rates</u></b>	<b><u>Amount Originally Issued</u></b>
General obligation bonds and capital loan notes:			
1988 City Hall construction	July 01, 1988	5.40-7.40%	\$ 510,000
1996 Swimming pool rehab./First Ave. improvements	April 01, 1996	4.70-4.80%	1,030,000
1998 Wastewater treatment plant expansion	Sept. 01, 1998	4.50-4.75%	3,280,000
Total			
Revenue notes:			
1996 Water refunding notes (1991 water treatment plant)	April 01, 1996	4.75-5.40%	\$ 885,000
1998 Sewer revenue notes (1998 wastewater treatment plant expansion)	Sept. 01, 1998	4.00-5.20%	1,000,000
Total			



**Schedule 2**

<b><u>Balance Beginning of Year</u></b>	<b><u>Issued During Year</u></b>	<b><u>Redeemed During Year</u></b>	<b><u>Balance End of Year</u></b>	<b><u>Interest Paid</u></b>	<b><u>Interest Due and Unpaid</u></b>
\$ 220,000	\$ -	\$ 40,000	\$ 180,000	\$ 16,220	\$ -
355,000	-	115,000	240,000	16,983	-
<u>2,695,000</u>	<u>-</u>	<u>200,000</u>	<u>2,495,000</u>	<u>122,417</u>	<u>-</u>
<u><u>\$ 3,270,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 355,000</u></u>	<u><u>\$ 2,915,000</u></u>	<u><u>\$ 155,620</u></u>	<u><u>\$ -</u></u>
\$ 405,000	\$ -	\$ 95,000	\$ 310,000	\$ 21,290	\$ -
<u>825,000</u>	<u>-</u>	<u>40,000</u>	<u>785,000</u>	<u>40,225</u>	<u>-</u>
<u><u>\$ 1,230,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 135,000</u></u>	<u><u>\$ 1,095,000</u></u>	<u><u>\$ 61,515</u></u>	<u><u>\$ -</u></u>

# CITY OF MOUNT VERNON

## Bond and Note Maturities

June 30, 2004

Year Ending June 30,	General Obligation Bonds and Capital Loan Notes		1996 Swimming Pool Rehab./	
	1998 Wastewater Treatment Plant Expansion Issued Sept. 1, 1998		First Ave. Improvements Issued April 1, 1996	
	Interest Rates	Amount	Interest Rates	Amount
2005	4.50%	\$ 205,000	4.80%	\$ 115,000
2006	4.50	220,000	4.80	125,000
2007	4.50	230,000		-
2008	4.50	230,000		-
2009	4.50	145,000		-
2010	4.50	155,000		-
2011	4.50	160,000		-
2012	4.50	170,000		-
2013	4.50	180,000		-
2014	4.50	185,000		-
2015	4.50	195,000		-
2016	4.70	205,000		-
2017	4.75	215,000		-
<b>Total</b>		<u><u>\$2,495,000</u></u>		<u><u>\$</u></u>
<u><u>240,000</u></u>				



1988 City Hall Construction			
Issued July 1, 1988			Total
Interest Rates		Amount	
7.40%	\$	40,000	\$ 360,000
7.40		45,000	390,000
7.40		45,000	275,000
7.40		50,000	280,000
		-	145,000
		-	155,000
		-	160,000
		-	170,000
		-	180,000
		-	185,000
		-	195,000
		-	205,000
		-	215,000
	\$	180,000	\$2,915,000

(continued)

## CITY OF MOUNT VERNON

## Bond and Note Maturities

June 30, 2004

Year Ending June 30,	Revenue Notes					Total
	1996 Water Refunding Notes (1991 Water Treatment Plant) <u>Issued April 1, 1996</u>		1998 Sewer Revenue Notes (1998 Wastewater Treatment Plant Expansion) <u>Issued Sept. 1, 1998</u>			
	Interest Rates	Amount	Interest Rates	Amount		
2005	5.20 %	\$ 95,000	4.50 %	\$ 40,000	\$ 135,000	
2006	5.30	105,000	4.50	40,000	145,000	
2007	5.40	110,000	4.50	45,000	155,000	
2008		-	4.65	45,000	45,000	
2009		-	4.65	50,000	50,000	
2010		-	4.65	50,000	50,000	
2011		-	4.85	55,000	55,000	
2012		-	4.85	55,000	55,000	
2013		-	5.05	60,000	60,000	
2014		-	5.05	60,000	60,000	
2015		-	5.05	65,000	65,000	
2016		-	5.20	70,000	70,000	
2017		-	5.20	75,000	75,000	
2018		-	5.20	75,000	75,000	
Total		<u>\$ 310,000</u>		<u>\$ 785,000</u>	<u>\$1,095,000</u>	

## CITY OF MOUNT VERNON

Schedule of Receipts by Source and Disbursements by Function-  
All Governmental Funds

	Years Ended June 30,			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Receipts:				
Property tax	\$ 816,454	\$ 821,756	\$ 749,736	\$ 649,472
Tax increment financing collections	733,812	551,216	671,803	777,313
Other city tax	138,678	348,964	112,369	29,535
Licenses and permits	44,181	22,081	30,635	17,602
Use of money and property	24,856	31,831	33,180	151,262
Intergovernmental	346,631	409,540	352,680	392,071
Charges for service	103,887	93,205	83,218	63,133
Miscellaneous	<u>132,311</u>	<u>119,841</u>	<u>169,399</u>	<u>74,666</u>
Total	<u>\$2,340,810</u>	<u>\$2,398,434</u>	<u>\$2,203,020</u>	<u>\$2,155,054</u>
Disbursements:				
Operating:				
Public safety	\$ 477,261	\$ 505,845		
Public works	297,335	269,850		
Culture and recreation	265,166	238,634		
Community and economic development	7,240	3,980		
General government	203,634	238,995		
Debt service	511,520	502,608		
Capital projects	<u>216,604</u>	<u>372,963</u>		
Total	<u>\$1,978,760</u>	<u>\$2,132,875</u>		

## **Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting**

To the Honorable Mayor and  
Members of the City Council  
Mount Vernon, Iowa

We have audited the financial statements of the City of Mount Vernon, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. Our report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether the City of Mount Vernon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part III in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for those that are noted as being a repeat of a prior year comment.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Mount Vernon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City of Mount Vernon's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. Prior year reportable conditions have been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Mount Vernon and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Mount Vernon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Cedar Rapids, Iowa  
August 31, 2004



## **CITY OF MOUNT VERNON**

### **Schedule of Findings**

**Year Ended June 30, 2004**

#### **Part I: Summary of Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, which was also considered a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

## **CITY OF MOUNT VERNON**

### **Schedule of Findings**

**Year Ended June 30, 2004**

#### **Part II: Findings Related to the Financial Statements:**

##### **Instances of non-compliance:**

No matters were noted.

##### **Reportable conditions:**

##### **II-A-04 Segregation of Duties**

Comment - The limited number of personnel involved in the accounting department makes it difficult to achieve ideal internal accounting control through the complete segregation of employee duties. The concentration of closely related duties and responsibilities performed by a small number of staff, makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - The City is aware of the lack of segregation of duties and has considered alternatives to improve this situation.

Conclusion - Response acknowledged.

#### **Part III: Other Findings Related to Statutory Reporting:**

##### **III-A-04 Official Depositories**

Resolutions naming official depositories have been approved by the City. The maximum deposit amounts stated in the resolutions were not exceeded during the year ended June 30, 2004.

##### **III-B-04 Certified Budget**

Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the Public Safety and Culture and Recreation functions. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

## **CITY OF MOUNT VERNON**

### **Schedule of Findings**

**Year Ended June 30, 2004**

#### **Part III: Other Findings Related to Statutory Reporting (continued):**

##### **III-B-04 Certified Budget (continued)**

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

##### **III-C-04 Questionable Disbursements**

We noted no expenditures for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

##### **III-D-04 Travel Expense**

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

##### **III-E-04 Business Transactions**

Business transactions between the City and City officials or employees are detailed as follows:

<b><u>Name, Title, and Business Connection</u></b>	<b><u>Transaction Description</u></b>	<b><u>Amount</u></b>
Jim Moore, Council Member, Owner of Jim's Tree Service	Tree Maintenance	\$ 250

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to represent a conflict of interest since the total transactions with him were less than \$1,500 during the fiscal year.

##### **III-F-04 Bond Coverage**

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

##### **III-G-04 Council Minutes**

No transactions were found that we believe should have been approved in the Council minutes but were not.

## **CITY OF MOUNT VERNON**

### **Schedule of Findings**

**Year Ended June 30, 2004**

#### **Part III: Other Findings Related to Statutory Reporting (continued):**

##### **III-H-04 Revenue Notes**

The following comment is a repeat of a prior year comment.

The provisions of the water and sewer revenue capital loan note resolutions state that separate funds shall be established for both the income and revenue of the water and sewer systems and the current disbursements of the water and sewer systems and that a monthly transfer be made from the revenue fund to the disbursing fund in order to cover expenditures. A monthly transfer, as required by the bond agreements, has not been made from the revenue funds to the operation and maintenance funds.

Recommendation - Monthly transfers from a revenue fund to an operation and maintenance fund should be done according to the terms of the water and sewer revenue capital loan note resolutions.

Response - The City feels that maintaining one fund each for water and sewer system revenues and expenses makes it easier to track and understand financial position at any given time. The City plans to continue with one fund each for water and sewer system revenues and expenses.

Conclusion - Response acknowledged.

##### **III-I-04 Deposits and Investments**

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

##### **III-J-04 Economic Development**

The City paid \$3,500 to the Mount Vernon Economic Development Corporation which may not be an appropriate expenditure of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. These provisions stipulate that the governing body should evaluate the public benefits to be obtained and discuss specific criteria to be considered in documenting the public purpose.

Recommendation - The Council should evaluate and document the public purpose served by an expenditure before authorizing further payments and should require the recipient to provide documentation of how the funds were used to accomplish economic development activities.

Response - We have requested and received information documenting how these funds were expended and we will continue to request this information as applicable.

Conclusion - Response accepted.

## **CITY OF MOUNT VERNON**

### **Schedule of Findings**

**Year Ended June 30, 2004**

#### **Part III: Other Findings Related to Statutory Reporting (continued):**

##### **III-K-04 Self-Funded Health Insurance**

The City has a partially self-funded health insurance plan. Chapter 509A.15 of the Code of Iowa requires that an actuarial opinion and annual financial report be filed with the Insurance Commissioner within 90 days of year-end. For the year ended June 30, 2004, this filing was not timely filed.

Recommendation - We recommend that these reports be filed as soon as possible and future filings be timely filed with the Insurance Commissioner.

Response - The third-party administrator for the plan failed to prepare and file the report timely. Once the City discovered that they had not filed this report we contacted them and they began the process of obtaining the actuarial report in order to file the information with the Insurance Commissioner.

Conclusion - Response accepted.